

State Recommendation NIE32

~~TOP SECRET~~

14

Conclusion

1. We have no reason to believe that the stability of the Chinese Communist regime has ^{yet} been threatened by its participation in the Korean conflict. No reliable evidence indicates significant dissension among the important Chinese Communist leaders. Disaffection has been increasing among some groups of the Chinese people, and the burdens of war probably have contributed to this increase, but the regime by a skilful combination of coercion and persuasion has shown itself capable of maintaining active support of important select groups, preventing discontent from crystallizing into active opposition, and maintaining a viable authority.

Review of this document by CIA has determined that

- ☒ CIA has no objection to declass
☐ It contains information of CIA interest that must remain classified at TS S O

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2. Such evidence as we have does not yet indicate that the Korean conflict, by itself, has seriously affected the Chinese Communist economy. However, it probably has already hindered and delayed the program of economic expansion and development that the Communist leaders had intended to pursue. It is also probable that factors arising from the conflict will make the maintenance of economic stability increasingly costly and may eventually threaten that stability.

TOP SECRET

TOP SECRET

6. Should Chinese operations in Korea continue indefinitely at present levels, a number of serious strains might eventually be expected including:

a) The maintenance within China of increasingly larger policing and tax collecting organizations whose operations probably would arouse greater popular hostility;

b) the lessening of Chinese Communist prestige and maneuverability both at home and abroad due to the regime's failure in part because of shortages of trained manpower and economic resources, to carry out its programs of social change and economic reconstruction; and c) the increase in Chinese Communist pressure upon the USSR to support a more decisive resolution of the Korean conflict.

TOP SECRET

TOP SECRET

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3. The decline of spontaneous popular support and the apparent necessity to impose greater restrictions and demands upon the home front have resulted in the regime's speeding up its efforts to consolidate further its control of the country. Terroristic measures to suppress "counter-revolutionary activity" have been reinforced by positive steps to strengthen the public security systems, to centralize and expand militia units, to increase membership in Communist directed "people's organizations", and to destroy the conventional organization of Chinese society. The regime has also been required to build up large military forces within China to maintain order until such time as a well-organized security police and other social control agencies have been developed. While these measures have been successful in checking the development of potentially hostile elements into effective opposition, they appear to have been carried out at the expense of jeopardizing the full-hearted support of certain popular elements whose prestige, training, and technical skills the regime has regarded as essential to the furtherance of longer range political and economic planning. At the same time the cost of maintaining domestic controls and supporting foreign operations will probably force the Communists to impose greater tax demands upon the manpower and economic resources of rural areas with a resulting increase in popular discontent, while requiring the Communists to moderate their long term revolutionary social and economic programs. In terms of the future stability of the regime the consequences of such developments could far outshadow the current effects of the Korean war upon Communist China.

TOP SECRET

TOP SECRET

II. ECONOMIC EFFECTS OF THE KOREAN WAR

4. Available evidence, while equivocal, suggests that the Korean conflict has not yet seriously affected the Chinese Communist economy. Inflationary pressures have built up since mid-1950, although in general domestic prices, have risen only slightly. Western trade restrictions and rising world prices, however, have resulted in precipitous price rises for imported raw materials and manufactured products. Foreign trade with the West during early 1951 appears to have declined sharply in comparison with 1950, when China's imports from non-Soviet bloc sources amounted to approximately US \$500 million (primarily cotton, rubber, and iron and steel), and exports to the non-Soviet world amounted to approximately US \$400 million (primarily tung oil and bristles). Except for shortages of petroleum for civilian use and shortages of certain fairly important specialized industrial items, there is no evidence of important industrial shortages in Communist China until June 1951 when reports of textile mill shutdowns in Canton and Shanghai were carried in the press. The Communists admit that these shutdowns are related to Western trade restrictions as well as to the failure of the cotton collection program in China itself. Actual industrial output figures are not available beyond January 1951, but announced industrial output goals for 1951 indicate only modest increases over 1950, during which industrial output expanded greatly. Although military railway traffic must have interfered to some extent with the distribution of goods in China, there are no indications that essential non-military transportation has suffered ap-

TOP SECRET

preciably since the large initial troop movements northeastward in the summer and autumn of 1950. The Korean war appears to have had little effect thus far on the over-all food situation in China, and present indications are that the food crop in 1961, despite the withdrawal of draft animals and manpower, may be at least as high as in 1950.

TOP SECRET

TOP SECRET

5. Certain longer run problems arising from the Korean war are likely to increase the economic difficulties of the government during the next year. These problems arise from: a) the effective reduction of supplies of machinery and raw materials necessary for industrial rehabilitation through Western trade controls, and b) the manpower demands of the war itself, not only for combat troops but for supporting military and civilian transport units. In time these factors are likely to result in a decline in both urban and rural production, and in the volume of internal trade, and, as a consequence, in a reduction in tax revenues. Under these conditions the maintenance of economic stability probably would become increasingly costly, and eventually this stability, so far maintained, might be seriously jeopardized. In any case, these already appear to have dampened the rate of economic progress evident in 1950.

TOP SECRET

TOP SECRET

6. There is reason to believe that the Korean war has increased Peiping's economic dependence on the USSR. In the first place, even the materiel demands of the type of military operations now being carried on by the Chinese Communists have been beyond their means to supply from their own resources. In the second place, the increased East-West tension that followed the outbreak of hostilities in Korea has resulted in more stringent Western trade restrictions. However, there has been almost no concrete evidence concerning the economic relations between Communist China and the Soviet Union since the outbreak of hostilities.

TOP SECRET

TOP SECRET

12. The greater number of reports, the evidence of propaganda, and of official pronouncements, show that during the Korean war there has developed closer coordination of foreign policy and propaganda, of military and economic planning, and of cultural relations between the USSR and China. There are no indications that the Chinese leaders have altered their determination to continue the Korean conflict.

Any genuine Sino-Soviet friction would doubtless be concealed as long as possible. No hint of such friction can be found in current Chinese Communist pronouncements on the Korean war. The present official attitude is illustrated by the following excerpt from a recent article by P'eng Chen, a member of the Chinese Communist Politburo:

"....American imperialism is the enemy of the peoples of China, Korea, and also the biggest and last enemy in human history for the laboring peoples of the world. The struggle carried out by the Chinese Volunteers and the Korean People's Army against the American aggression forces is to save Korea from obliteration and bring about the national liberation of Korea. It is the struggle of the Chinese people to protect their homes and defend the Nation and protect the fruits of victory. It is also a struggle of the Chinese people to halt most effectively imperialistic aggression and defend world peace and democracy. It is a fight for the Korean people and Chinese people and also for the entire peoples of the world. It is a patriotic movement and also a movement of internationalism."

- 9 -

TOP SECRET

TOP SECRET

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[redacted] there may be dissatisfaction on the part of both Soviets and Chinese with the Sino-Soviet alliance. Despite the closeness of the present relationship, which can well have reduced the opportunities for crystallizing such dissatisfaction, the Chinese Communist position in Korea raises a number of conflicts in interest. For purposes of survival, the Pei-p'ing regime is probably more concerned with a decisive and immediate resolution of the Korean war than is the Kremlin. On the other hand, Soviet dependence on the Chinese Communists to spearhead the advance of Communism in Asia may cost Moscow in terms of control over the movement, even in Korea. It is to be noted that the long term potentialities of these conflicts depend to a great degree on the stresses produced within Communist China by Communist participation in the Korean war.

TOP SECRET